



## MEMORANDUM

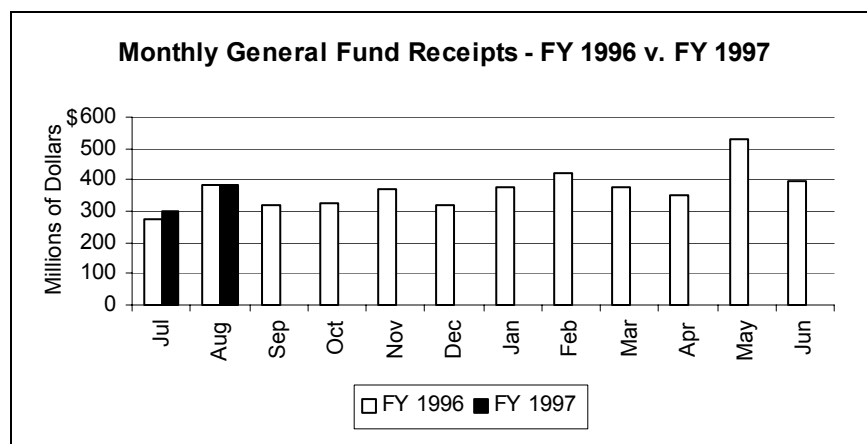
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: September 4, 1996

### General Fund Receipts Through August 31, 1996

The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can also be compared to the latest FY 1997 estimate (\$4.495 billion) set by the Revenue Estimating Conference (REC) on April 5, 1996.<sup>1</sup> The REC will revisit the FY 1997 estimate on September 25, 1996, taking into account legislative changes signed into law since the April meeting.

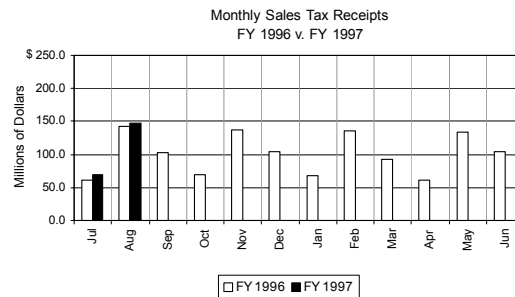
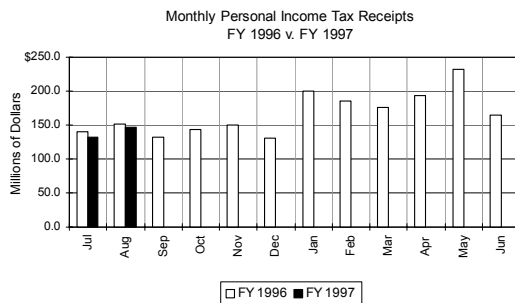


Total year-to-date General Fund receipts for the first two months of FY 1997 increased 3.9% compared to FY 1996. Tax receipts showed an increase of 3.7%. Personal income tax receipts decreased 4.3%. Sales tax receipts were 6.1% higher than the previous fiscal year. Use tax increased 7.6% compared to FY 1996, and corporate income tax receipts showed a 44.7% increase. Although the month of August

<sup>1</sup> Actual FY 1996 and estimated FY 1997 revenues reflect legislative changes concerning the earmarking of gambling revenues in excess of \$60.0 million. The REC will formally revise these figures at the next meeting.

had one more processing day this year, the first two months of FY 1997 have had one less processing day than the same period in FY 1996.

Gross personal income tax receipts for August were \$5.0 million less than August 1995, and year-to-date income tax receipts were \$12.5 million less than the first two months of FY 1996. Several non-economic factors have contributed to the decline. First, changes in the withholding tables did not affect individual income tax revenues until August 1995, which could account for nearly 30.0% of the \$12.5 million shortfall. Secondly, income tax receipts for the first two months of FY 1996 were unusually strong. Income tax receipts through August were still 5.6% higher than the same period a year ago. Timing associated with payment of the school district surtax also played a significant part in the reduction in receipts. The April REC increased the FY 1997 estimate for individual income tax \$53.4 million to \$2.059 billion, an increase of 2.9% compared to actual FY 1996.



Monthly growth in sales tax receipts declined from July's level of 11.1% to 3.9% in August. Although quarterly payments have been lagging year-ago levels, taxpayers who pay monthly more than made up for the loss. The current REC estimate is for 3.1% growth in sales tax receipts compared to FY 1996 actual receipts.

Corporate income tax receipts in August were \$1.7 million (14.7%) less than August 1995. Year-to-date receipts exceeded FY 1996 levels by \$11.4 million (44.7%), although at least \$8.0 million of this amount was due to a timing factor associated with the day of the week on which the fiscal year began. This factor alone accounts for more than 70.0% of the growth. The REC decreased the FY 1997 estimate for corporate income tax receipts by \$5.0 million in April. The current estimate represents a decrease of 1.6% compared to actual FY 1996 corporate income tax receipts.

Franchise tax receipts in July totaled \$4.3 million, an increase of \$1.9 million (79.2%) compared to actual FY 1996 receipts. Timing factors explained previously help to explain most of this growth. The REC revised the FY 1997 franchise tax estimate downward by \$2.0 million in April, indicating that legislation passed during the 1995 Legislative Session was not entirely successful in recovering lost revenues. However, receipts during the final quarter of FY 1996, as well as an informal analysis of franchise tax returns by the Department of Revenue and Finance, indicate that tax avoidance measures recently utilized by banks may be diminishing substantially. Franchise tax receipts in the last quarter of FY 1996 were 12.0% higher than the last quarter of FY 1995.

Racing and gaming receipts increased 69.1% compared to August 1995, and are 63.1% higher than the first two months of FY 1996. In compliance with HF 2421 (Transportation and Capitals Appropriations Act), which passed during the 1996 Legislative Session, the Department of Revenue and Finance transferred \$46.1 million from racing and gaming receipts to the Rebuild Iowa Infrastructure Fund. The Infrastructure Fund will also receive all gambling revenues exceeding \$60.0 million in FY 1997. As explained in the beginning of this memorandum, the accompanying spreadsheet already reflects this change.

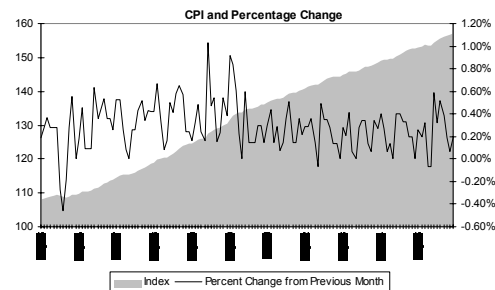
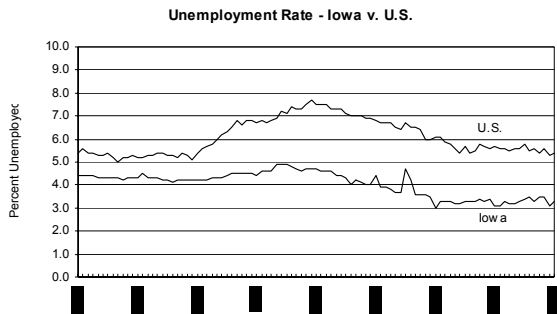
## Receipts Compared to REC Estimate

The April REC FY 1997 estimate of \$4.495 billion represents an increase of 2.0% compared to actual FY 1996 General Fund receipts. The percentage growth estimate had been 3.2% compared to the last FY 1996 estimate. Assuming each month is expected to increase by the REC estimate, the estimate for the first two months was exceeded by approximately \$12.6 million (unadjusted for any timing factors). Through August, approximately 15.3% of estimated General Fund receipts have been received.

## Status of the Economy

The seasonally adjusted percent unemployed for the State increased two tenths of a point to 3.3% in July, which corresponds to approximately 3,500 additional unemployed persons. The unemployment rate a year ago was 3.4%. The U.S. unemployment rate increased 0.1 percentage points to 5.4% in July. The U.S. rate in July 1995 was 5.7%.

Consumer prices in July increased slightly less than 0.2%. The Consumer Price Index (CPI) through July 1996 was 157.0 (1983=100), which is 3.0% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through July 1996.



## Receipts Information Available On-Line

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). Data is presented graphically and numerically in quarterly, monthly, and daily formats. If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1996, through August 31, 1996, in millions of dollars						FY 96 Actual Compared to FY 97 REC Estimate			
	FY 1996		FY 1997		Year to Date	August	Actual	Estimate	% CHANGE
	\$		\$		% CHANGE	% CHANGE	FY 1996	FY 1997	% CHANGE
Personal Income Tax	\$ 291.8		\$ 279.3		-4.3%	-3.3%	\$ 2,000.9	\$ 2,059.0	2.9%
Sales Tax	204.4		216.8		6.1%	3.9%	1,213.0	1,250.0	3.1%
Use Tax	40.6		43.7		7.6%	3.8%	207.8	216.0	3.9%
Corporate Income Tax	25.5		36.9		44.7%	-14.7%	277.6	273.1	-1.6%
Inheritance Tax	16.2		21.2		30.9%	19.3%	95.9	92.9	-3.1%
Insurance Premium Tax	-0.1		0.1		-200.0%	n/m	104.3	102.1	-2.1%
Cigarette Tax	17.3		17.1		-1.2%	-19.6%	94.1	97.0	3.1%
Tobacco Tax	0.9		0.9		0.0%	0.0%	5.3	5.3	0.0%
Beer Tax	2.4		2.4		0.0%	18.2%	12.6	12.5	-0.8%
Franchise Tax	2.4		4.3		79.2%	n/m	26.5	27.0	1.9%
Miscellaneous Tax	0.0		1.1		n/m	n/m	0.9	0.9	0.0%
Total Special Taxes	\$ 601.4		\$ 623.8		3.7%	0.3%	\$ 4,038.9	\$ 4,135.8	2.4%
Institutional Payments	18.1		18.8		3.9%	5.5%	105.0	103.6	-1.3%
Liquor Transfers:									
Profits	3.0		3.5		16.7%	-33.3%	29.0	27.0	-6.9%
7% Gross Revenue	1.5		1.5		0.0%	0.0%	9.0	9.0	0.0%
Interest	2.5		0.7		-72.0%	-84.0%	13.5	13.0	-3.7%
Fees	10.1		11.3		11.9%	27.7%	61.7	61.5	-0.3%
Judicial Revenue	5.4		5.5		1.9%	12.5%	40.0	40.1	0.2%
Miscellaneous Receipts	9.9		5.4		-45.5%	-62.8%	49.5	44.8	-9.5%
Racing and Gaming Receipts	11.1		18.1		63.1%	69.1%	60.0	60.0	0.0%
TOTAL RECEIPTS	\$ 663.0		\$ 688.6		3.9%	-0.1%	\$ 4,406.6	\$ 4,494.8	2.0%